

MANAGERIAL ECONOMICS 621  
Tentative Syllabus | Wharton Philadelphia, Fall 2010

**Instructors:**

Professor Katja Seim	Section Number	Location	Days	Time
Location: SH-DH 1457	MGEC621-001	JMHH 260	TR	9-10:30
Email: <a href="mailto:kseim@wharton.upenn.edu">kseim@wharton.upenn.edu</a>	MGEC621-003	JMHH 260	TR	10:30-12
Office Hours: TR, 3-4:30	MGEC621-005	JMHH 250	TR	1:30-3

Professor Neil Doherty	Section Number	Location	Days	Time
Location: SH-DH 3410	MGEC621-007	JMHH 265	TR	9-10:30
Email: <a href="mailto:doherty@wharton.upenn.edu">doherty@wharton.upenn.edu</a>	MGEC621-009	JMHH 265	TR	10:30-12
Office Hours:	MGEC621-011	JMHH 255	TR	1:30-3

Professor Albert Saiz	Section Number	Location	Days	Time
Location: SH-DH 1466	MGEC621-013	JMHH 360	TR	9-10:30
Email: <a href="mailto:saiz@wharton.upenn.edu">saiz@wharton.upenn.edu</a>	MGEC621-015	JMHH 360	TR	10:30-12
Office Hours: Wed, 9-12	MGEC621-017	JMHH 350	TR	1:30-3

Professor Kent Smetters	Section Number	Location	Days	Time
Location: SH-DH 3303	MGEC621-019	JMHH 370	TR	9-10:30
Email: <a href="mailto:smetters@wharton.upenn.edu">smetters@wharton.upenn.edu</a>	MGEC621-021	JMHH 370	TR	10:30-12
Office Hours:	MGEC621-023	JMHH 355	TR	1:30-3

**Text:**

W. Bruce Allen, Neil Doherty, and Keith Weigelt, and Edwin Mansfield (ADWM), Managerial Economics, 7<sup>th</sup> Edition, W. W. Norton, New York, 2009.

Available at the University of Pennsylvania Bookstore. This text is the same one used in MGEC 603/608 (Preterm MGEC). Please note that the 7<sup>th</sup> Edition is significantly different than the 6<sup>th</sup> Edition, especially for material covered by MGEC 621.

**Class Notes and Additional Exercises:**

Class notes are provided in advance of each class on the course website. Please take a quick read through them before class, including the attached reading (if any). In some cases, you will notice “blanks” in the slides / notes, which are designed to motivate classroom discussion and promote critical thinking. If you miss class then see a colleague to “fill in” the blanks; office hours are reserved for students who attend class.

Past exams and some additional problems for each class will also be distributed.

### **Teaching Assistants:**

Teaching Assistants are your “first line of defense” for answering questions about course material. Each TA has been screened for his/her competence.

Hours for TA’s are shown in the Appendix to the Syllabus.

### **Grading:**

<b>Assessment</b>	<b>Due</b>	<b>% of Grade</b>
Homework #1	September 23, in class	5%
Midterm Exam	September 28, 6 - 7:30PM, TBD	35%
Homework #2	See Schedule, INSEAD Game	5%
Homework #3	October 19, in class	5%
Final Exam	October 22, 1 - 3PM, TBD	50%
Total		100%

Note: Course grades will be “curved” at the instructor-level across his/her sections, i.e., not across all sections.

### **Review Sessions:**

Teaching Assistants will hold reviews for both the Midterm and Final Exams, at dates and times to be announced on Webcafe.

## MANAGERIAL ECONOMICS 621: Topics and Readings

Thursday, September 9, 2010

### **LECTURE 1: INTRODUCTION, MOTIVATION AND REVIEW**

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### **Sophisticated Pricing Strategies**

Tuesday, September 14, 2010

### **LECTURE 2: Two-Part Tariffs**

Background: Continues the pre-term discussion of pricing when a firm has market power. A two-part tariff is a sophisticated way to a firm to increase their profits by capturing more consumer surplus. This type of pricing is used extensively by country clubs, eating clubs, sports stadium personal seat licenses, phone company call plans.

Reading: ADWM, Chapter 8, “Managerial Use of Price Discrimination: Two-Part Tariffs.” 266-276

Thursday, September 16, 2010

### **LECTURE 3: Transfer Pricing**

Background: In a conglomerate world, company A and company B may be owned by the same parent company. If company A uses the product of company B as an input to their production process, the question of the appropriate price to be paid for B’s product by A is a contentious one. Setting the right “transfer prices” aligns incentives and helps the parent company maximize profits. Examples include IT services within many companies and GE’s internal consulting group.

Reading: ADWM, Chapter 9, “Bundling and Intra-Firm Pricing.” 317-327.

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## **Profit Maximizing Behavior in Oligopolistic Markets**

Tuesday, September 21, 2010

### **LECTURE 4: Strategies in Duopolies I**

Thursday, September 23, 2010

### **LECTURE 5: Strategies in Duopolies II (and catch up)**

Background: In an oligopoly situation, we have competition among a few firms. This is the most common form of business competition in most large markets of the world: Coke vs. Pepsi, Intel vs. AMD, and so on. Within this general marketing setting, competition differs further among two dimensions: (1) the degree of market power / contestability and (2) the degree in which one party has a first-mover advantage. We explore how to maximize profits in each case.

Reading: ADWM, Chapter 10, “Oligopoly,”: 334 – 361.

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## **Influencing Your Market Setting**

Tuesday, September 28, 2010

### **LECTURE 6: The Static Setting**

Background: The powerful tool of game theory is introduced and used to explore how you can influence your market setting in order to move from less to more profitable situations. In this lecture, we first investigate how to influence your market setting in a “static setting” where actions tend to be more “one off” and so the role of reputation is less important. We consider the incentives to collude with your competition as well as attempts to deter entry.

Reading: ADWM, Chapter 11, “Game Theory”

**MIDTERM EXAM in the evening cover Lectures 1 – 5.**

Thursday, September 30. 2010

**LECTURE 7: The Dynamic Setting**

Background: We now extend our analysis to investigate how “reputation” influences your ability to collude or deter entry.

Reading: ADWM, Chapter 16, “Government and Business:” 567-570.

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**Dealing with Asymmetric Information and Uncertainty**

Tuesday, October 5. 2010

**LECTURE 8: Auctions**

Background: Auctions are used by sellers to obtain information on how much consumers value an item and to attempt to extract the highest possible price for the item. Examples include the Jackie Onassis possessions, the FCC communications spectrum, Treasury securities, and stock repurchases.

Reading: ADWM, Chapter 12, “Auctions”

Thursday, October 7. 2010

**LECTURE 9: Decision making Under Uncertainty and Insurance**

Background: Focusing on the expected return of an investment can be misleading. We discuss how to make decisions under uncertainty and the value of hedging against that uncertainty.

Reading: ADWM, Chapter 13, “Risk Analysis”

Tuesday, October 12. 2010

**LECTURE 10: Adverse Selection**

Background: Markets often fail in the presence of asymmetric information between buyers and sellers because only the “lemon” (low quality or high risk) is offered for sale (or wants to buy) in equilibrium. Examples abound from the sale of used cars, demand for insurance, and even trades of athletes. In some cases, government policy enhances the problem. We investigate how to use

“screens” and “signals” to deal with this business-critical problem.

Reading: ADWM, Chapter 15, Adverse Selection

Note: Some professors might prefer to teach the material in Lecture 11 before Lecture 10.

Thursday, October 14, 2010

### **LECTURE 11: Moral Hazard**

Background: Moral hazard is a second type of problem that can occur in the presence of asymmetric information. A party changes its level of risk taking in response to the protection that he/she is provided, sticking more risk to the counterparty. The structure of executive compensation attempts to deal with a key moral hazard – between executives and shareholders -- and has received considerable attention recently. Attempts to deal with moral hazard must always balance the diversification risk of the party whose behavior is the focus of control.

Readings: ADWM, Chapter 14, “Principal-Agent Issues and Managerial Compensation”

Tuesday, October 19, 2010

### **LECTURE 12: Externalities and Common Pool Resource Problems (if time permits)**

Background: Certain actions like air pollution create “market failures” because firms do not pay the fair market price for the harm that they cause others, thereby generating so-called “externalities.” Appropriate government regulation is one way to correct the problem; under some conditions, the private market can also correct it even without government interference. This class produces insight into when government action is needed to improve the market outcome and when it is not needed.

Friday, October 22, 2010

### **FINAL EXAMINATION COVERING ALL LECTURES**

Tentative (see Webcafe for most updated schedule)

<p style="text-align: center;"><b>SEPTEMBER 2010</b> <b>MGEC 621 TA OFFICE HOURS</b></p>			
<p><b>13 Monday</b> 12-1:30 Janet Lee – JMHH 360 Jaesung Choi – JMHH 370 Francesc Dilme – JMHH 365</p> <p>3-4:30 Janet Lee - JMHH 360</p> <p>3-5:30 Jaesung Choi – JMHH 365 Francesc Dilme – JMHH 370</p>	<p><b>14 Tuesday</b> 12-1:30 Janet Lee – SHDH 1201 Francesc Dilme – SHDH 1203</p> <p>3-4:30 Francesc Dilme – SHDH 1203 Janet Lee – SHDH 1203</p> <p>4:30 – 6 Francesc Dilme – SHDH 1203 Cindy Soo – SHDH 209</p>	<p><b>15 Wednesday</b> 12-1:30 Janet Lee – JMHH 360 Jaesung Choi – JMHH 370</p> <p>3-6 Jaesung Choi – JMHH 370 Cindy Soo – JMHH 360</p>	<p><b>16 Thursday</b> 12-1:30 Cindy Soo – SHDH 209</p> <p>3-4:30 Janet Lee – 1206</p> <p>3-6 Cindy Soo – SHDH 1203</p>
<p><b>20</b> 12-1:30 Janet Lee – JMHH 360 Jaesung Choi – JMHH 370 Francesc Dilme – JMHH 365</p> <p>3-4:30 Janet Lee - JMHH 360</p> <p>3-6:00 Jaesung Choi – JMHH 365 Francesc Dilme – JMHH 370</p>	<p><b>21</b> 12-1:30 Janet Lee – SHDH 1201 Francesc Dilme – SHDH 1203</p> <p>3-4:30 Francesc Dilme – SHDH 1203 Janet Lee – SHDH 1206</p> <p>4:30 – 6 Francesc Dilme – SHDH 1203 Cindy Soo – SHDH 1206</p>	<p><b>22</b> 12-1:30 Janet Lee – JMHH 360 Jaesung Choi – JMHH 370</p> <p>3-6 Jaesung Choi – JMHH 370 Cindy Soo – JMHH 360</p>	<p><b>23</b> 12-1:30 Cindy Soo – SHDH 209</p> <p>3-4:30 Janet Lee – 1206</p> <p>3-6 Cindy Soo – SHDH 1203</p>
<p><b>27</b> 12-1:30 Janet Lee – JMHH 360 Jaesung Choi – JMHH 370 Francesc Dilme – JMHH 365</p> <p>3-4:30 Janet Lee - JMHH 360</p> <p>3-6:00 Jaesung Choi – JMHH 365 Francesc Dilme – JMHH 370</p>	<p><b>28</b> 12-1:30 Janet Lee – SHDH 1201 Francesc Dilme – SHDH 1203</p> <p>3-4:30 Francesc Dilme – SHDH 1206 Janet Lee – SHDH 109</p> <p>4:30 – 6 Francesc Dilme – SHDH 1206 Cindy Soo – SHDH 109</p>	<p><b>29</b> 12-1:30 Janet Lee – JMHH 360 Jaesung Choi – JMHH 370</p> <p>3-6 Jaesung Choi – JMHH 370 Cindy Soo – JMHH 360</p>	<p><b>30</b> 12-1:30 Cindy Soo – SHDH 209</p> <p>3-4:30 Janet Lee – 1206</p> <p>3-6 Cindy Soo – SHDH 1203</p>

# OCTOBER 2010

## MGEC 621 TA OFFICE HOURS

<b>4 Monday</b>  12-1:30 Janet Lee – JMHH 360 Jaesung Choi – JMHH 370 Francesc Dilme – JMHH 365  3-4:30 Janet Lee - JMHH 360  3-6:00 Jaesung Choi – JMHH 365 Francesc Dilme – JMHH 370	<b>5 Tuesday</b>  12-1:30 Janet Lee – SHDH 1201 Francesc Dilme – SHDH 1203  3-4:30 Francesc Dilme – SHDH 1203 Janet Lee – SHDH 1206  4:30 – 6 Francesc Dilme – SHDH 1203 Cindy Soo – SHDH 1206	<b>6 Wednesday</b>  12-1:30 Janet Lee – JMHH 360 Jaesung Choi – JMHH 370  3-6 Jaesung Choi – JMHH 370 Cindy Soo – JMHH 360	<b>7 Thursday</b>  12-1:30 Cindy Soo – SHDH 209  3-4:30 Janet Lee – 1206  3-6 Cindy Soo – SHDH 1203
<b>11</b>  12-1:30 Janet Lee – JMHH 360 Jaesung Choi – JMHH 370 Francesc Dilme – JMHH 365  3-4:30 Janet Lee - JMHH 360  3-6:00 Jaesung Choi – JMHH 365 Francesc Dilme – JMHH 370	<b>12</b>  12-1:30 Janet Lee – SHDH 1201 Francesc Dilme – SHDH 1203  3-4:30 Francesc Dilme – SHDH 1203 Janet Lee – SHDH 1206  4:30 – 6 Francesc Dilme – SHDH 1203 Cindy Soo – SHDH 1206	<b>13</b>  12-1:30 Janet Lee – JMHH 360 Jaesung Choi – JMHH 370  3-6 Jaesung Choi – JMHH 370 Cindy Soo – JMHH 360	<b>14</b>  12-1:30 Cindy Soo – SHDH 209  3-4:30 Janet Lee – 1206  3-6 Cindy Soo – SHDH 1203
<b>18</b>  12-1:30 Janet Lee – JMHH 360 Jaesung Choi – JMHH 370 Francesc Dilme – JMHH 365  3-4:30 Janet Lee - JMHH 360  3-6:00 Jaesung Choi – JMHH 365 Francesc Dilme – JMHH 370	<b>19</b>  12-1:30 Janet Lee – SHDH 1201 Francesc Dilme – SHDH 1203  3-4:30 Francesc Dilme – SHDH 1203 Janet Lee – SHDH 1206  4:30 – 6 Francesc Dilme – SHDH 1203 Cindy Soo – SHDH 1206	<b>20</b>  12-1:30 Janet Lee – JMHH 360 Jaesung Choi – JMHH 370  3-6 Jaesung Choi – JMHH 370 Cindy Soo – JMHH 360	<b>21</b>  12-1:30 Cindy Soo – SHDH 209  3-4:30 Janet Lee – 1206  3-6 Cindy Soo – SHDH 1203